

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
Friday, March 16, 2001  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the Conference Room of the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710-3776. Dr. Chuck Essigs, Chairman, ASRS Board, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Dr. Chuck Essigs, Chairman  
Mr. Jim Bruner, Vice Chairman (via teleconference)  
Dr. Merlin DuVal  
Ms. Bonnie Gonzalez (arrived via teleconference 8:32 a.m.)  
Mr. Jim Jenkins  
Mr. Alan Maguire (via teleconference)  
Mr. Norman Miller (via teleconference)  
Mr. Karl Polen (via teleconference)  
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

**2. Approval of Minutes of the February 16, 2001 Regular Meeting of the ASRS Board**

**Motion:** Dr. Merlin DuVal moved to approve the minutes of the February 16, 2001 regular meeting of the ASRS Board.

Mr. Jim Jenkins seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

**3. Board Approval of Consent Schedule**

**Motion:** Dr. Merlin DuVal moved that the ASRS Board approve the summary report of Retirements, Refunds and Death Benefits and System Transfers.

Mr. Ray Rottas seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

**Ms. Bonnie Gonzalez joined the meeting at 8:32 a.m.**

**4. Presentation, Discussion and Appropriate Action Regarding the Extension of the CB Richard Ellis Contract**

Mr. Jim Bruner, Chairman, Investment Review Board Committee, reported that the first year of the existing contract with CB Richard Ellis (CBRE) to manage and lease the 3300 Tower and Broadway Proper properties will expire on May 31, 2001.

**Motion:** Mr. Jim Bruner moved to approve the extension for the second year of a potential five year contract of CB Richard Ellis, to manage and lease the 3300 Tower and Broadway Proper at the fee schedule as outlined below:

Base management fee equal to the greater of 1.25% of gross collected revenues vs. \$5,500.00 per month

Construction management fee, as follows:

\$0 - \$10,000	=	0%
\$10,001 - \$100,000	=	5%
\$100,001 - \$200,000	=	4%
\$200,001 - \$500,000	=	3%
\$500,001 and above	=	2%

[in no event, will the Landlord incur a fee on any one job in excess of \$25,000]

Leasing commissions:

Five percent (5%) of the total base rent for years 1-5

Two and one-half percent (2½%) of the total base rent for years 6-10

In the event that a co-broker is involved, the fee paid will be split on a 50/50 basis, as follows:

Six percent (6%) of the total base rent for years 1-5

Three percent (3%) of the total base rent for years 6-10

[a baseline rental rate and tenant improvement rate will be determined after walking each suite; in the event that tenant improvements, in excess of the mutually agreed upon TI rate, are amortized into the rent, Landlord will not be obligated for a commission on the excess rent being remitted to cover tenant improvements]

Mr. Alan Maguire seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

**5. Presentation, Discussion and Appropriate Action Regarding the Performance of International Managers for the Period Ending December 31, 2000**

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., gave a brief overview of the global and U.S. economic situation, and then reported on the performance of Axe-

Houghton & Associates, Bank of Ireland, Barclays Global Investors (BGI), Brandes, and Capital Guardian Trust Company for the period ending December 31, 2000.

Mr. Seth Lynn, President reported on Axe-Houghton & Associates' performance for the period ending December 31, 2000.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 Years*</b>	<b>5 Years*</b>	<b>Inception (July 1992)*</b>
<b>Country Weights</b>	0.02	(0.02)	(0.05)	(0.03)	(0.05)
<b>Stock Selection</b>	(0.60)	1.90	2.29	1.65	1.31
<b>Hedging</b>	0.00	0.00	0.00	0.00	0.00
<b>Fees</b>	(0.02)	(0.10)	(0.09)	(0.09)	(0.09)
<b>Other/Trading</b>	0.12	0.10	(0.12)	(0.11)	0.03
<b>Value Added</b>	(0.48)	1.88	2.03	1.42	1.20

\*Annualized

Mr. Daniel E. Anderson, Vice President, Client Services, and Ms. Gráinne Mac Giolla Rí, Portfolio Specialist, reported on Bank of Ireland's performance for the period ending December 31, 2000.

<b>Relative Return</b>	<b>Quarter</b>	<b>1 Year</b>	<b>Inception (annualized)*</b>
<b>Country</b>	+2.28%	+3.29%	-2.54%
<b>Selection</b>	-2.80	+9.88	+10.30
<b>Hedging</b>	-0.08	-0.96	-0.24
<b>Fees (%)</b>	-0.06	-0.24	-0.24
<b>Currency</b>	+2.98	-5.81	-2.28
<b>Value Added</b>	+2.32	+6.16	+5.87

\*Inception date 9/30/98, performance figures as of 12/31/00

Mr. Jeffrey Blanchard, Principal International Portfolio Manager, and Mr. David Lissek, Client Relationship Associate, reported on BGI's performance for the period ending December 31, 2000.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Inception (5/31/96)</b>
<b>ASRS Net Return</b>	-2.85%	-13.96%	9.56%	N/A	7.03%
<b>Benchmark Return (EAFE Gross)</b>	-2.62	-13.96	9.64	N/A	7.19
<b>Total Value Added Relative to the Benchmark</b>	-0.23	0.00	-0.08	N/A	-0.16

Mr. Ian Sunder, CFA, Portfolio Manager, reported on Brandes' performance for the period ending December 31, 2000.

<b>Total Rate of Return</b>	<b>Quarter*</b>	<b>1 Year*</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Inception*</b>
<b>Country Weightings</b>	0.4	1.2	N/A	N/A	0.5
<b>Stock Selection</b>	8.2	18.5	N/A	N/A	16.6
<b>Currency</b>	-0.6	1.1	N/A	N/A	2.8
<b>Fees (%)</b>	-0.2	-0.5	N/A	N/A	-0.4
<b>Other</b>	-0.4	-0.2	N/A	N/A	0.0
<b>Total Value Added Relative to Benchmark</b>	7.4	20.1	N/A	N/A	19.5

\*Net of fees as of 12/31/00; Inception date used for attribution analysis is 10/31/98.

Mr. Michael Nyeholt, Relationship Manager and Mr. Lionel Sauvage, Portfolio Manager, reported on Capital Guardian Trust Company's performance for the period ending December

31, 2000.

	<b>Quarter</b>	<b>1 Year</b>	<b>EAFE Inception*</b>
<b>Country Weighting</b>	-0.6%	-0.3	+2.7
<b>Stock Selection</b>	-3.5	-6.0	+8.6
<b>Hedging</b>	+0.0	+0.1	+0.1
<b>Currency</b>	-1.0	+0.3	+1.1
<b>Fees</b>	-0.1	-0.4	-0.4
<b>Total Value Added Relative to Benchmark</b>	-5.2	-6.8	+10.5

\*EAFE Inception:10/1/98 through 12/31/00 (2 years, 3 months)

## 6. Presentation, Discussion and Appropriate Action Regarding Current Legislative Issues

Mr. Tom Augherton, Deputy Director External Operations, gave a brief overview of the legislative movement of ASRS-related bills. There are seven bills that still have a chance to pass.

Mr. Tom Finnerty, Legislative Liaison, reported on the status of the active bills:

### **SB 1100 (supplemental defined contribution plans)**

By Senator Cirillo plus 1

Passed the Senate on a 18-10-2 vote. It has been given a double assignment in the House: Retirement and Government Operations (RGO) and Ways and Means (W&M). W& M Chair Steve May was the only house member to vote against HB 2169, SB 1100's sister bill. It is scheduled for hearing in RGO on Tuesday, March 20, 2001.

### **SB 1117 (ASRS; omnibus)**

By Senator Cirillo

It is also scheduled for RGO on Tuesday, March 20, 2001.

### **SB 1295 (retirement benefits; defined contribution supplement)**

By Senator Cirillo

Passed the Committee of the Whole (COW) with the Finance (FIN) and Rules amendments. Passed the Senate on a 24-5-1 vote. It has a multitude of benefit changes. It will be heard in the House RGO in the coming weeks.

### **HB 2004 (ASRS; actuarial computation method)**

By Representatives Brimhall, Gray and Senator Cirillo

Passed the House on a 47-2-11 vote. It has been assigned to FIN, but is not on the committee agenda.

### **HB 2164 (retirees; health insurance subsidies)**

By Representative Brimhall

Passed the House on a 50-0-10 vote. It has been assigned to FIN and APPROPS, but is also not currently on the FIN agenda.

**HB 2111 (state retirement service credits; transfers)**

By Representative Blendu plus 1

Passed FIN on a 8-0-0 vote. It is ready for Rules and caucuses.

**SB 1107 (retirees; health insurance; subsidies)**

By Senators Arzberger, Guenther, Rios, Mitchell, Solomon, Verkamp, Bee plus 5;

Representatives Lugo, Soltero, Lored, Maiorana, Miranda plus 6

Passed the Senate on a 24-5-1 vote.

Dr. Essigs asked if the budget request from the ASRS for the Information Technology and Staffing Plan was still being considered in its original form. Mr. Augherton responded that there is some disagreement between the state budget numbers the Governor's office is using and those of the Joint Legislative Budget Committee. The Governor's office has made some operational cuts but there are concerns about the viability of any bill that has any significant impact on the general fund. As to the impact on the ASRS budget request, the ASRS has not been mentioned as one of the agency's that will need to re-negotiate.

Dr. DuVal asked for clarification about the impact of SB 1107, which improves the situation for retirees in rural areas where there are no HMOs. Mr. Finnerty answered that the benefits of the bill would be effective after it becomes law, but the impact on the contribution rate, and therefore the general fund, will not occur until July 2003, when the rate will increase.

Dr. DuVal asked whether members in Maricopa and Pima counties would continue to pay higher premiums than those areas that don't have HMOs. Ms Donna Buelow, Assistant Director Members Services, stated that, for the purposes of the state contract, the different premiums for non-HMO coverage in the rural and urban areas reflect the lack of choice in the rural areas. Under the current structure of the contract, those differentials would continue even with the subsidy under the Arzberger bill, but it could be a negotiation point in the future.

**7. Presentation, Discussion and Appropriate Action Regarding the ASRS Salary Administration Plan for the Executive Management Team**

Mr. Jim Jenkins, Chairman, Executive Compensation Board Committee reported that the committee met on March 9, 2001 to review the salaries and performance of the ASRS Executive Management Team. The annual membership survey, which comprises approximately 20 percent of the performance review, continues to show an increase in the level of satisfaction. Additionally the accomplishments of each individual have been outstanding and have met the requirements for both an increase in base salary and pay for performance (PFP).

**Motion:** Mr. Jim Jenkins moved to approve the ASRS salary administration plan for the Executive Management Team as recommended by the Executive Compensation Board Committee.

Dr. Merlin DuVal seconded the motion.

Mr. Alan Maguire expressed his disappointment that the evaluation of the performances and salary adjustments had been done so quickly and that he had been unable to participate due to schedule conflicts. He pointed out that, from his recollection, the individuals have received a 10 percent PFP each year for the past several years. He stated that he believes that if the increase is the same each year, adjustments should be considered a base salary increase rather than a PFP. He also noted that the proposed base salary increases were about eight percent, which he believes is higher than the market. He agreed that the amount of the increases is justified in some cases but not all. He asked that the motion be split into four separate motions and that each individual be discussed separately.

**Substitute Motion:** Mr. Alan Maguire moved that the Board discuss and consider each of the individual salaries and performances separately.

Mr. Maguire withdrew his motion.

**Motion:** Mr. Alan Maguire moved that the Board convene to Executive Session to discuss the salary administration plan.

Mr. Ray Rottas seconded the motion.

By a vote of 7 in favor, 2 opposed, 0 abstentions, 0 excused, the motion was approved.

Dr. Essigs announced that the Board would consider the remainder of the agenda items before convening to Executive Session.

## **8. Director's Report**

There were no comments on the Director's Report.

## **9. Board Requests for Agenda Items**

There were no requests from Board members for agenda items.

## **10. Call to the Public**

Ms. Susan Waites, of the Tucson Education Association's Financial Awareness Committee, asked what percentage of the total fund international investments represent. Mr. Paul Matson responded that the actual percentage changes day by day, but the asset allocation policy is 17 percent of market value of the total fund to international equities, 53 percent to domestic equity, and 30 percent to U.S. fixed income.

Mr. Marty Drozdoff, also of the committee, had technical questions for the investment managers. Dr. Essigs suggested Mr. Drozdoff provide the questions to Mr. Matson who would pass them on to the managers for their responses.

There were no requests to speak in Phoenix.

**11. The next regular ASRS Board meeting is scheduled for Friday, April 20, 2001, at 8:30 a.m. in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910.**

The Board convened to Executive Session at 10:50 a.m.

The Board reconvened to Regular Session at 11:21 a.m.

**Motion:** Mr. Jim Jenkins moved to approve the ASRS salary administration plan for the Executive Management Team as outlined below:

- Mr. Tom Augherton, Deputy Director External Operations, at a base of \$90,909 and pay for performance (PFP) of \$9,091.
- Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, at a base of \$92,727 and PFP of \$9,273.
- Mr. Paul Matson, Chief Investment Officer, at a base of \$108,183 and PFP of \$10,817.
- Mr. LeRoy Gilbertson, Director, at a base of \$113,637 and PFP of \$11,363.

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 2 opposed, 0 abstentions, 0 excused, the motion was approved.

**12. Adjournment of the ASRS Board.**

Dr. Chuck Essigs adjourned the March 16, 2001 regular meeting of the ASRS Board at 11:23 a.m.

Respectfully submitted,

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Maurah Harrison, Secretary

Date

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LeRoy Gilbertson, Director

Date